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SUBJECT: EU DONOR COORDINATION IN THE BALKANS (KOSOVO)

¶1. SUMMARY: Kosovo generated the most interest at an all day donor coordination meeting hosted by the European Commission (EC) on December 13 to solicit bilateral input in advance of a new EC strategy for the Balkans. The meeting was attended by representatives from individual European Union (EU) countries as well as other bilateral donors such as Norway, Switzerland and the US. At the end of the meeting, EC representatives affirmed that they would work with the World Bank to co-sponsor a donor conference once the "final status" of Kosovo is resolved, emphasizing that "when conditions are ready, the donor conference will be launched" and "please convey back to your capitals the need to prepare". END SUMMARY

¶2. BACKGROUND: The EC recently hosted an all-day meeting in Brussels with a view toward seeking bilateral donor input as part of their development of a new assistance strategy for the Balkans. Opened by Michael Leigh, Director-General for Enlargement, the event was partly a "show and tell" involving contributions from individual donors. The USAID Representative to the EU attended on behalf of the US; other non-EU members represented included Switzerland and Norway. This is the first of a series of cables summarizing current programs and future plans for various donors now working in the Balkans.

¶3. EUROPEAN COMMISSION (EC): Provisional funding levels for a new three-year program cycle for Kosovo are estimated at around 258 million euros, including 124 million euros for 2008, 66 million euros for 2009 and 64 million euros for ¶2010. Once the "final status" for Kosovo is resolved, the EC expects to join with the World Bank to co-host a major international donor conference. Planning teams are underway or planned. Expectations are high that a "goodly amount" will be pledged, with those present urged to "please convey back to your capitals the need to prepare".

¶4. Looking ahead to future programs in Kosovo, the EC identified low capacity and an inability to effectively absorb large amounts of international aid as a central concern. Other important issues include vulnerable groups and good governance. Likely EC programs include legal and policy advice, business development, energy, food safety standards, cultural heritage, local governance, education and return and reintegration.

¶5. Finally, EC officials noted that any future donor conference needs to emphasize (1) key constraints in Kosovo and how to address them; and (2) "lessons learned" from

elsewhere in the Balkans that could be usefully applied in Kosovo. Ensuring Kosovo "ownership" of all future donor assistance is a vital concern. Major EC objectives for any future strategy period include support to help Kosovo meet international commitments, including maintenance of a multi-ethnic society. With regard to international commitments, the USG was specifically commended for its interest in debt relief.

¶6. ITALY: The Italian aid representative described Kosovo as an "unprecedented challenge" for the EU. He also noted ongoing Italian support for cultural heritage programs, including church restoration. Current programs include 1.4 million euros for public utilities as well as support for the university polyclinic in Pristina. Areas of future interest include capacity building, health, education and cultural heritage.

¶7. FINLAND: The Finnish view Kosovo as a "major priority." The Finnish representative noted that current Finnish programs focus on special needs education; health, including training for nurses; disabled populations; vulnerable groups, including both women and minorities; and local governance. Finland anticipates providing 13 million euros for Kosovo over the next four years, with another 2.2 million euros available for civil-military projects. Any future programs will almost certainly maintain a strong interest in special education and municipal development.

¶8. SWEDEN: The Swedish aid budget for Kosovo, now estimated at 80 million Swedish kroners annually, is expected to increase. A new strategy is being prepared. Currently, the aid program is managed by five staffers based in Pristina who

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focus on democracy, governance and economic growth. Specific programs include support for municipal property taxes, probation services, civil society, rural credit, land administration and an ombudsman office. Major Swedish concerns include corruption, absorptive capacity and a potentially "very weak" state.

¶9. DENMARK: The current Danish programs focus on vulnerable groups, returnees and economic development, especially microfinance. A new 10 million euro vocational training initiative will be launched shortly. Also, the Danes are working with the Swiss on a credit facility. The new Danish aid strategy for the Balkans accords "highest priority" to Kosovo.

¶8. NORWAY: Ongoing Norwegian programs focus on democracy, capacity building and minority rights. Funding is mostly channeled through the United Nations as well as local groups and Norwegian NGOs. Specific programs include legal assistance for returning refugees and a housing program focused on the Roma community. Other areas of interest include support for the Kosovo Property Agency, small business, animal husbandry and the Kosovo Institute for Journalism and Communications. As with many donors, institutional capacity is a central concern. Looking ahead, Norway wants to retain "flexibility" but anticipates that "funding levels will almost certainly increase".

¶10. SWITZERLAND: In terms of its aid to the Balkans, Switzerland assigns Kosovo its "highest priority." Swiss funding for 2008 is estimated at 13 million euros, with more planned once "final status" is settled. Areas of interest include good governance, decentralization, rural development, entrepreneurship, vocational training, water supply and minority protection.

¶11. UNITED KINGDOM (UK): The UK strongly endorsed "one EU development strategy for Kosovo," emphasizing in particular the need for "radical unification" among EU donors. It welcomed the EU emphasis on economic growth. Repeating absorptive capacity as a huge concern, it suggested that new

programs should have "less technical assistance and more investment." The UK representative noted that their current program through DFID is around three million pounds annually, with another three million pounds provided through a "conflict assistance" mechanism.

¶12. More broadly, the UK urged that all donors working in Kosovo adopt a cohesive, unified strategy. Urging donors to look for "less project-like" mechanisms, it stated that Kosovo would be "overwhelmed" by too many delivery systems. It noted governance and public administration as areas of particular concern. Also, the UK emphasized the importance of "extractive industry transparency," especially related to a new lignite mine. Finally, the UK indicated that it would be involved in Kosovo for at least the next three years, with programs focused on economic growth (including energy, skills and commercial law), good governance (including decentralization and statistics), rule of law and improved, government-led donor coordination systems.

¶13. COMMENT: Although basically a working level meeting, the uniformity of views on the importance of Kosovo for bilateral donors working in the Balkans was striking, with virtually everyone present affirming Kosovo as their "most important priority." Similarly, there is widespread consensus that weak institutions and limited absorptive capacity will be key concerns in Kosovo during the coming years. More broadly, the sense that significant funds will be made available for development purposes in Kosovo is tinged with some skepticism about the extent to which these funds will be effectively programmed and utilized.

MURRAY